

# **The Modern Legacy of Adam Smith**

An Honors Thesis (HONRS 499)

by

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A handwritten signature in black ink, appearing to read 'Paul Ranieri', with a stylized, flowing script.

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## I. Abstract

Many know Adam Smith as a great economist. As a business major, textbooks and lectures demonstrate Smith's ideas of the "invisible hand" guiding the financial markets through supply and demand, the division of labor that leads to the most efficient output, and the idea that following one's own self-interest produces the most effective economy. However, a deeper understanding of Adam Smith reveals that he thought of himself, and in fact was, so much more. Arthur Herman, in his book *How the Scots Invented the Modern World*, claims, "Adam Smith thought of himself *primarily* as a moral philosopher, and almost all his studies came down to answering the basic questions that [Francis] Hutcheson has raised" (Herman, pg. 197). Modern business students know Smith's ideas about the "invisible hand" guided by self-interest and the division of labor. Yet, his thoughts about the inherent morality of human beings – why they on average choose to be good rather than bad – and why humans react and behave the way they do encompassed his studies and provided the framework for the influential capitalistic ideas.

## II. How Adam Smith is Portrayed

The portrayal of Adam Smith's work varies across many disciplines. In a humanities course, one would probably recognize Smith as a philosopher. However, in an economics course, most likely, Smith would be labeled as a narrow economist. This has been the case throughout my academic career. I have been exposed to a variety of sources on Smith and the disparity can be somewhat confusing. A few examples may illuminate this issue. The humanities textbook titled *The Western Humanities* by Roy T. Matthews and F. Dewitt Platt labels Smith as, "...the Scottish economist" (Matthews, pg. 440). The text continues to describe Smith's ideas about industrial capitalism and the free-market economy. Additionally, *The Columbia Encyclopedia* also identifies Smith as a Scottish economist with ideas of the division of labor and laissez-faire economics (*Columbia*).

Conversely, many other sources seem to maintain that Smith was more than an economist. *The Dictionary of British History* claims that although, "Most interpretations have labeled Adam Smith a parent of laissez-faire economics, he was much more interventionist than this" (Cannon). Furthermore, in his text, Boise State Professor of Economics R. Larry Reynolds states, "...economics [is] treated as part of philosophy, religion and/or moral philosophy" (Reynolds). The nature of this statement declares that economic theory is a part of moral philosophy, which Smith exemplified throughout his work. Smith's work was not aimed to provide a framework for capitalism or a free-market economy; these ideas were built together with his ideas on human behavior. Labeling Smith only as an economist does him an injustice, as we will see, because his work encompassed ideas of morality, justice, happiness, as well as, economic theory. "The neglect applies, among other issues, to the appreciation of the demands of rationality, the need for recognizing the plurality of human motivations, the connections

between ethics and economics, and the codependent rather than free-standing role of institutions in general, and free markets in particular, in the functioning of the economy” (Sen).

### **III. Era of Scottish Enlightenment: The Life and Times of Adam Smith**

Adam Smith was born in Kirkcaldy, Scotland in 1723 among a large group of intellectual thinkers who would shape the Scottish Enlightenment. These thinkers included Thomas Reid, philosopher, born 1710; Adam Ferguson, pioneer sociologist, born 1724; and Joseph Black, chemist, born 1728. Also born during this era was Adam Smith’s dear friend David Hume, who was a fellow philosopher and economist from the Scottish Enlightenment (Ross). As Smith aged, he was educated at Glasgow University in Scotland and Balliol University in Oxford. His primary concentrations were European Literature, Humanities, and Moral Philosophy. Smith gained popularity through a series of popular lectures during the 1740s that centered on rhetoric and the system of natural liberty. Following this success, Smith returned home to accept the positions of chair of logic in 1751 and the chair of moral philosophy in 1752 at Glasgow University. He taught at Glasgow for over a decade until he was summoned to travel Europe and tutor the Duke of Buccleuch. Smith was paid double his salary as a university professor during his stint as a tutor and contrived the means to retire following his two year travels through Europe (“Adam Smith”). It was then that Smith decided to devote his time to what has become his modern masterpiece, *An Inquiry into the Nature and Causes of the Wealth of Nations*.

Adam Smith’s work precisely illuminates the nature of the Scottish Enlightenment – a nature that was fairly dualistic at times. The Scottish Enlightenment was somewhat different from the better-known and holistic British Enlightenment. Traditionally, the Enlightenment is known as a period of, “...philosophical and cultural movements marked by the application of

reason to human problems and affairs, a questioning of traditional beliefs and ideas, and an optimistic faith in the unlimited progress for humanity, particularly through education” (Matthews). However, rather than the focus resting solely with rationality and scientific deduction, the Scottish Enlightenment heavily stressed practicality. The Scottish Enlightenment sought to transform each discipline – biology, economics, chemistry, art, literature, etc. – into, “...a series of organized disciplines that could be taught and passed on to posterity” (Herman, pg. 64). Even still, a tension arose during the Scottish Enlightenment that was synthesized through Smith’s work. One side of the movement stressed the inherent goodness of humans, the power of education, and the appeal of nature. The opposing side exemplified a cynical realism and skeptical belief toward human intentions.

Francis Hutcheson embodied the former side of the Scottish Enlightenment – the side about which Adam Smith was educated. Hutcheson opposed the thesis originally produced by Thomas Hobbes. Hobbes believed that humans used an internal formula to calculate pain and pleasure and to develop a sense of right and wrong. He believed that virtue and vice centered around this calculation and this is what guided humans’ ideas of morality. Hutcheson believed that pain was associated with vice and pleasure with virtue but rejected Hobbes conclusion that it stemmed from self-interest. He explained that, “we experience pleasurable sensations in doing or observing "virtuous" things because anything which complies with our natural benevolence or moral sense automatically yields pleasure” (“Francis Hutcheson”). He argued that are our natural sense toward virtue is guided by a sense of compassion for others – sympathy toward all people. This was very different than the idea that Hobbes hypothesized because he argued that our draw to do right is steered through self-interest, not benevolence. Hutcheson was a pioneer of

“the greatest happiness for the greatest numbers,” which was formally discussed in the following century by John Stuart Mill (“Scottish”).

The latter side of the Scottish Enlightenment was spearheaded through the works of David Hume, among others. Hume had a different perspective on the inherent morality of human beings relative to Hutcheson. Hume appeared to follow the foundation laid by Hobbes in the previous century. He argued that human morals arose from human aspirations rather than any divine being and constantly worked to separate the understanding of human nature from any theological origins. Humans are products of their context or environment (Herman). Hume, “*relativized* man, in the sense that [he] made who we are dependent to some degree on our experience in a particular time and place, rather than solely on some inborn quality or sense” (Herman, pg. 94). His ideas naturally induced skepticism toward the intentions and desires of humans. One can be inclined to understand what is correct but these feelings cause one to react. This is what sets Hume apart. He believed that although people do contain an inherent sense of right and wrong, passion and sentiments guide our actions, which perpetuated the idea that self-interest could be at the core of one’s actions.

This idea was at the heart of Giovanni Pico della Mirandola’s three-part process in the *Oration on the Dignity of Man*. Mirandola describes the first two-steps – which are only pertinent to Hume’s ideas – in a similar way as David Hume. The first part of the process is to “Nothing Too Much.” This is the idea of moral philosophy, “prescribing a standard rule for all virtues through the doctrine of the Mean” (Thompson, pg 262). Humans first understand the idea of right or wrong before moving forward. However, the process does not stop there. The next step is “Know Thyself.” Here is where we see Hume’s application of human passion guiding action. This “...urges and encourages us to the investigation of nature of all nature, of

which the nature of man is...the connecting link” (Thompson, pg. 262). So, one must understand oneself in relation to individual roles first. Then, one can move forward to understanding one’s larger role in society.

The Scottish Enlightenment thinkers were a close-knit group who discussed and critiqued each others’ work. This could be one explanation that Adam Smith came to provide a sense of both sides of Scottish thought, both the Hutcheson and Hume side. Obviously Smith had read their works and had framed his ideas in context. However, when we read about Adam Smith, we generally only see one side. Modern academia, especially business colleges, exposes students to Smith’s ideas of self-interest and utilitarianism that were influences from Hutcheson. Yet, it is important for one to also recognize Hume’s ideas to fully understand Adam Smith. Because Smith’s work expresses a tension between both sides, modern readers must understand both sides. Reading only the *Wealth of Nations* gives readers the impression that following self-interest is the key to economic success. However, Smith would have argued that certain moral virtues, such as justice or self-control, limit one’s self interests. Seeing Adam Smith only as an economist blinds one to the ability to see the bigger picture. This picture that Smith outlines is not for one to simply follow one’s self-interest for the greater good. Smith defined the process as much larger in scale. This is too simplistic. Through understanding Smith’s philosophical views on mutual sympathy, benevolence, and self-command, one can begin to frame modern economic principles in the context of these ideas. As Aristotle stated in *Metaphysica*, “the whole is greater than the sum of its parts.” Economic curriculum would benefit greatly from recognizing and identifying the whole of Smith’s work, not just its individual parts.



#### IV. Adam Smith's "Other" Ideas: *The Theory of Moral Sentiments*

One of Adam Smith's most influential works is *The Theory of Moral Sentiments*. It was written in 1759 and demonstrated the foundations for Smith's later work. The book is a collection of thoughts on human behavior and character and how one judges that character. Gloria Vivenza says in her book *Adam Smith and the Classics*, "...man's defining element is not reason but sentiment...In Smith's case the sentiment was 'sympathy': a sense of sharing in one's neighbor's sentiments, universally felt to a greater or lesser degree" (Vivenza, pg. 42). Smith believed that *all* humans – even the selfish – have a natural inclination to feel sorrow or joy for others, even if the situation was unfamiliar. Smith describes our sympathy as being drawn more to sorrow than joy. "It is to be observed accordingly, that we are still more anxious to communicate to our friends our disagreeable than our agreeable passions..." (Smith, I.I.16). Additionally, everyone has a desire to share mutual sympathy: "We run not only to congratulate the successful, but to condole with the afflicted; and the pleasure which we find in the conversation of one whom in all the passions of his heart we can entirely sympathize with..." (Smith, I.I.19). This mutual experience both accentuates our pleasure through presenting another source and alleviates pain by "...insinuating into the heart almost the only agreeable sensation which it is at that time capable of receiving" (Smith, I.I.15).

Smith believes that to understand sympathy fully, we must use an analysis from an "impartial spectator." The idea behind this impartial spectator arises from the belief that to make a full and unbiased judgment, one must be well-informed but unrelated to the agents of judgment. Smith maintains, "we either approve or disapprove of our own conduct, according as we feel that, when we place ourselves in the situation of another man, and view it, as it were, with his eyes and from his station, we either can or cannot entirely enter into and sympathize

with the sentiments and motives which influenced it” (Smith III.I.3). Bias toward the disposition of another creates a barrier for true sympathy because one is naturally inclined to already associate with the feelings of one’s likes or dislikes. Smith utilizes the theory of the “impartial spectator” to confront a hole in his argument. This idea asserts that although one cannot truly know how someone else feels, one must strive to understand the situation free of bias or attachment. Then can one fully sympathize with another.

Not only do we use sympathy to share in the happiness and sorrow of others and ourselves, but we use it also to judge a situation. Humans use their ability to sympathize to analyze if the situation is worthy of praise or admiration. The sentiment that one would associate with praise is gratitude and the sentiment one would associate with punishment would be resentment. Smith claims:

*“To us, therefore, that action must appear to deserve reward, which appears to be the proper and approved object of gratitude; as, on the other hand, that action must appear to deserve punishment, which appears to be the proper and approved object of resentment”* (Smith, II.I.5).

Similarly, this process can lead to both love and esteem as well as hatred. Love of another, according to Smith, comes from repeated “approbation” and allows one to sympathize positively with this person. However, constant “disapprobation” leads to dislike and sinisterly breeds a pleasure in the misfortune of another (Smith). Sympathy itself is a powerful sentiment that allows one to both relate to another, to evaluate another’s character, and to understand justice.

Justice, to Smith, is another virtue of human behavior. Even through justice, sympathy appears to be the foundation. Smith believed that humans use a three-step process to understand

justice. First, one evaluates another's actions toward us. One uses degrees of sentiment to understand if these actions are meant to convey happiness or sadness. Second, one evaluates one's own actions toward another using the impartial spectator. Third, and finally, one evaluates the motivations behind those actions and makes a judgment, ultimately leading to a decision on whether the action was just or unjust (Herman). An individual sympathizes with the injustice toward the injured party: "As the greater and more irreparable the evil that is done, the resentment of the sufferer runs naturally the higher; so does likewise the sympathetic indignation of the [impartial] spectator" (Smith II.II.12). Smith asserts that a violation of justice is causing harm to another, or creating "positive hurt" to another (Smith, II.II.5). However, he does claim that hurting another can, and should, occur in self-defense. "...there can be no incitement to do evil to another... except just indignation for evil which that other has done to us" (Smith, II.II.5). Smith assumed that justice had absolute rules and therefore could be interpreted with accuracy. Therefore, one can use a sympathetic understanding of human motivations to define justice and injustice and act accordingly (Vivenza).

Smith also utilized sympathy to define the goals of people. He believed that only through understanding how another person feels towards another person can one frame real respect. Smith maintains that humans have a desire to be praised or praise-worthy. "The love and admiration which we naturally conceive for those whose character and conduct we approve of, necessarily dispose us to desire to become ourselves the objects of the like agreeable sentiments" (Smith, III.I.10). Everyone aspires to act according to how one perceives praise-worthiness. An important distinction Smith makes is the difference between simple praise and praise-worthiness. Humans have a desire to complement their fellow brothers but fulfillment comes from believing that praise to be deserved – in other words, praise-worthy. If false praise is given, it may elicit a

warm feeling but will also feel somewhat empty. “But, though a wise man feels little pleasure from praise where he knows there is no praise-worthiness, he often feels the highest in doing what he knows to be praise-worthy” (Smith II.I.14). The scope of reference for praise-worthiness is the thread of Smith’s argument of sympathetic recognition. For one to know what is considered praise-worthy, one uses past experience of “approbation” toward him or her as a barometer. This idea will be important later as a contradiction has surfaced in the modern perception of Smith’s idea of, “the natural effort of every individual to better his own condition,” as being a singular power strong enough to lead an economy into prosperity.

The final two ideas that permeate from *The Theory of Moral Sentiments* are prudence and benevolence. These are the seeds of Smith’s most recognizable ideas in *The Wealth of Nations*. Additionally, these ideas seem to coincide and follow one another, as prudence comes first and benevolence follows. Prudence is concerned with one’s own happiness, “the objects upon which his comfort and happiness in this life are supposed principally to depend” (Smith, VI.I.6). One strives to be prudent based on the natural draw for one’s own comfort and healthful state. Not only does Smith assert that one strives to maintain this state, but one endeavors to better the situation. “The methods of improving our fortune, which [prudence] principally recommends to us, are those which expose [us] to no loss or hazard” (Smith, VI.I.7). Through Smith’s idea of sympathy, one finds prudence in others as the most cordial quality. So, as one struggles to be praise-worthy, prudence is the goal of everyone. This quality that must be satisfied first before benevolence can be considered.

After, “every man...is first and principally recommended to his own care” (Smith, VI.II.4), his next attention is benevolence. Benevolence is caring for the well-being of others and acting accordingly. This virtue is completely self-less and can conflict with prudence. Smith

defines it to work in conjunction with prudence. He places a natural order to benevolence as one maintains one's own happiness, then one's families, closest friends, and so on. This is the link to his economic principles on following one's own self-interest. I believe he would advise following self-interest to be the first consideration, but not the only, to better society. One must regard the well-being of all in one's decisions to fully benefit society, both personally and economically. An important line from *The Theory of Moral Sentiments* that contradicts the simple idea of myopic self-interest is, "The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society" (Smith, VI.II.46). Smith is saying that sometimes we must set aside our interests for the better of the whole. This is very much not the idea that is portrayed in modern textbooks. Again, this will be elaborated later as all Smith's ideas must be included together to fully understand their meaning. In the end, "the man who acts according to the rules of perfect prudence, of strict justice, and of proper benevolence, may be said to be perfectly virtuous" (Smith, VI.III.1).

## **V. The Modern Adam Smith: Smith's Most Famous Ideas**

Although Adam Smith believed *The Theory of Moral Sentiments* to be his best work, *An Inquiry into the Nature and Causes of the Wealth of Nations* – often just *The Wealth of Nations* – is the work that has preserved his reputation over the last two centuries. *The Wealth of Nations* has become a staple in economic curriculum as it provides one framework for the workings of a capitalistic economic system. It advises a laissez-faire system where the government protects the well-being of its people by not hindering economic activity or free-trade. The book is most often referred to for the idea of the "invisible hand" of self-interest creating mutual benefit for a whole

society. However, *The Wealth of Nations* was one of the first texts also to demonstrate a perfectly competitive market, the division of labor, and economic utility, and all concepts that are widely studied and employed today. Although these ideas are important to understand individually, they must be taken in context with Smith's other ideas to arrive at a full picture of his philosophy. First, though, let us examine some ideas within *The Wealth of Nations*.

The division of labor is an idea commonly associated with both Adam Smith and Henry Ford. For Henry Ford, it meant dividing work along an assembly line to both increase the effectiveness and efficiency of labor in the automobile industry. Therefore, the total production is increased as the jobs become more specialized. This idea encompasses the first section of *The Wealth of Nations*. Smith says:

*Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division and combination of their different operations (Inquiry, I.1.3)*

To further illustrate this idea, Smith describes three contributing factors that lead to the greatest impact of the division of labor. These factors include the specialization and perfection of a craft that one person develops by continually mastering a focused task. The second factor is

the, "...the saving of the time which is commonly lost in passing from one species of work to another" (*Inquiry*, I.1.5). The final factor is the quantity of machines that were invented to help one person do the work of many during the Industrial Revolution. He cautions that these machines are due, however, to the division of labor. "...The invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour. Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object" (*Inquiry*, I.1.8). The reason that Smith lobbies for the division of labor is that he believed that the production of more goods leads to a richer society.

Another idea that is often attributed to *The Wealth of Nations* is the concept of the "invisible hand." For Smith, the "invisible hand" was a combination of self-interest, competition, and supply and demand that worked together to regulate an economy. It is through these means of each individual striving for his/her own gain that the public interest is advanced. The idea of the invisible hand was first revealed in *The Theory of Moral Sentiments*. Smith affirms:

*The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an*

*invisible hand* to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species (Smith, IV.I.10).

This representation is quite different than the modern perception of the “invisible hand.”

Here, Smith is saying that even though the wealthy follow material desires and a natural selfishness, they increase the overall well-being of society. His reason is that they do not consume more resources than the poor and that their overall production increases the amount that can be distributed to all within a society. Even if their intention is conceded, they naturally benefit all without intending to do so.

In *The Wealth of Nations*, the “invisible hand” is used in context of supporting a domestic economy rather than a foreign economy. Smith writes:

*As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end*



*which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it (Inquiry, IV.2.9).*

Even though his use is specific in this case, the idea of the “invisible hand” is applied to a multitude of subjects in academic literature today. The “invisible hand” is the explanation for why efficient financial markets work. Every agent within the system strives to find the situation in which he or she receives the most benefit by working in conjunction with other agents in the system. This combination of collaboration and exchange in turn makes each member better off.

Additionally, supply and demand is the most common modern example of the “invisible hand.” Smith spent a considerable amount of time in *The Wealth of Nations* describing supply and demand. His framework is very similar to what is taught in modern economics classes today. He describes the intersection of supply and demand as the natural price. The forces that determine this equilibrium price – the “invisible hand” – are supply and demand. “The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity” (*Inquiry*, I.7.8). For example, if the demand for a product increases through effective advertising, then the equilibrium quantity and price are now at both higher levels based on the intersection of the supply and demand curves. The relationship among these forces, the effect of those contributing goods and those purchasing goods within a market, is what incentivizes people to act.

The invisible hand is the driver of human motivation. Smith used this concept to define why economic systems work the way they do. One first satisfies one’s own intention according

to one's own goals. Then, as one realizes the relationship among one's own actions and other's action within the full context of a society, the "invisible hand" determines the end result – the intersection of supply and demand. Thus, human motivation is the driver of action and Smith defined this action as the "invisible hand."

Although *The Wealth of Nations* contains a myriad of other ideas, I selected only the division of labor, the "invisible hand," and supply and demand rests as his most famous and recognizable ideas. In the lengthy *Wealth of Nations*, Smith discusses such other topics as the accumulation of inventory, the origin and use of money, the reason for the disparity in wages, and the restraints of a mercantile system. These topics are explored in various economics and finance classes and are important to understand the capitalistic system. The timelessness of Smith's work proves his depth of knowledge and understanding of a successful economic system employed both in the 18<sup>th</sup> and 21<sup>st</sup> centuries.

## **VI. Why Adam Smith's Well-Known Ideas Are Isolated to *The Wealth of Nations***

Although Adam Smith has a great variety of ideas spanning many avenues of human nature, his legacy rests with the ideas from *The Wealth of Nations*. The reason for this, in my opinion, is that during Smith's publication of this work, society as a whole became much more rational in its thought. The Enlightenment era meant a rise in reason, stressing observable facts rather than speculation. Nature could be understood through the empirical method (Matthews). Smith's ideas about a modern economic system could be tested and proven successful or not. However, his theories on human behavior that define *The Theory of Moral Sentiments* were more based on speculation and observation – they were much more psychological in nature. These ideas were much harder to rationally understand or prove. In addition, practicality was another

principle that emerged from the Enlightenment, specifically the Scottish Enlightenment. Again, Smith's economic terms were much more practical to employ and study than his theories on morality. This further increased the "importance" society placed on studying *The Wealth of Nations* and diminished the prominence of *The Theory of Moral Sentiments*.

Economics, as a subject matter, is very much rational. Nava Ashraf, an assistant professor at Harvard Business School, claimed, "Economics has had success as a field of scientific inquiry because it's been able to develop tractable models with strong predictive capacity; in other words, it simplifies the complex phenomena of human decision-making, interaction, and exchange into its barest form and makes predictions based on those. Of course, this has meant that economists have often had to sacrifice realism for tractability" (Ashraf). This further explains why Smith is best known for economics. The subject has considerable difficulty incorporating complex psychological and sociological ideas into theoretical models.

Finally, Smith's legacy rests within *The Wealth of Nations* simply because it is easier for people to understand and remember. When my fellow classmates ask me what I am doing for my senior thesis project, I reply a research paper on Adam Smith. Their subsequent comment is almost exclusively, "oh, he is the economist who talked about the invisible hand, right?" For academic purposes, students tend to try to associate important people with their ideas in order to study for a test. More important, the legacy of the person as a whole is often not a full picture of his/her theories but the ability to remember that one idea that is often linked to the person, i.e. Smith and the "invisible hand." So, this singular connection is perpetuated throughout the students' academic career and the entirety of Smith's work is now clouded behind the one idea that people remember for a test or trivia question.

## VII. The Full View of Adam Smith

Now that the depth of Smith's ideas is better exemplified with examples from both *The Theory of Moral Sentiments* and *The Wealth of Nations*, how can they be synthesized to fully understand Smith's true legacy? Furthermore, why does it even matter if his legacy is pigeonholed and society only knows of his economic principles? This myopic focus is actually misrepresenting Smith. To me, this would be like claiming Albert Einstein is only a physicist, Dr. Martin Luther King, Jr. only a Baptist minister, or Gandhi only a Hindu monk. While these are important aspects of their lives and works, such simplified characterizations do not give a fair representation of their life legacy. Adam Smith was an economist but he was also a moral philosopher. To fully appreciate and understand his ideas, these two cannot be separated.

According to Amartya Sen, Nobel Laureate in Economics in 1998, a full view of Smith's philosophy is essential: "Since the ideas presented in *The Wealth of Nations* have been interpreted largely without reference to the framework already developed in *Moral Sentiments* (on which Smith draws substantially in the later book), the typical understanding of *The Wealth of Nations* has been constrained, to the detriment of economics as a subject" (Sen). When one hears the quote, "The natural effort of every individual to better his own condition is so powerful that it is alone, and without any assistance, capable not only of carrying on the society to wealth and prosperity," (Smith, IV.5.82) out of context, Smith seems to be saying that following self-interest alone will lead to prosperity. However, within the context of his other ideas from *The Theory of Moral Sentiments*, this self-interest is driven by its own external factors. Smith argues that a pretext to following self-interest is understanding the situation through sympathy and the impartial spectator. The human frame of reference is bound by how our perception of the situation induces a feeling as if we were in the same situation. So, while one might seem to be

blindly following individual desires, these desires arise from how one perceives any subsequent consequences to both oneself and others. Smith believed that this perception was defined by the impartial spectator. “The impartial spectator allows us to see things from another’s perspective rather than to be blinded by our own needs” (Ashraf). This concept is economically useful because it eliminates the excuse for greed. Although one is following one’s own desires, the desires are framed within the context of how another perceives those desires. Thus, only if one intends to do harm to society would greed be an excuse for an action. Otherwise, one should understand that one’s desires must not only satisfy one’s goals but also the good of the community or economy.

One argument that many professors and economists have claimed is that benevolence and sympathy drive Smith’s ideas in *The Theory of Moral Sentiments* yet they seem to disappear in *The Wealth of Nations*. Often this passage is quoted alone to exemplify their claim: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our own dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” (*Inquiry*, I.2.2). However, in the very same paragraph, Smith asserts, “In civilized society [humans] stands at all times in need of the cooperation and assistance of great multitudes, while [their] whole [lives] [are] scarce sufficient to gain the friendship of a few persons” (*Inquiry*, I.2.2). This further demonstrates why a full view of Smith’s ideas is important because their argument actually contradicts itself. Smith talked about benevolence in *The Theory of Moral Sentiments* as having varying degrees based on who was involved in any interaction. Benevolence is strongest with family and decreases with each level of unfamiliarity. In a market system, most of our economic interactions are with those about whom we know very little or nothing at all. So, one can assume

that benevolence is not a factor or is very weak in these dealings. What drives the market system is that cooperation among fellow members is vital for its survival (Coase). Of course people are not inherently benevolent with those with whom they have not shared time. However, benevolence has not disappeared. Robert Coase, a professor from the University of Chicago, explained this situation, “A politician, when motivated by benevolence, will tend to favour his family, his friends, members of his party, inhabitants of his region or country...Such benevolence will not necessarily redound to the general good. And when politicians are motivated by self-interest unalloyed by benevolence, it is easy to see that the results may be even less satisfactory” (Coase). Benevolence is situational but cooperation and sympathy are present in almost every aspect of human interaction. For the full benefit of cooperation, a median between myopic self-interest and blind benevolence must exist.

Ultimately, interpreting Smith only as an economist and reading his work only from *The Wealth of Nations* constrains our understanding of Smith’s true legacy, to the detriment of economics and society. We are denied the full view of Smith’s theories. As one reads about the “invisible hand” and “self-interest” without the larger frame of reference, Smith appears to advocate for blind independence and self-reliance. However, this was not the case at all. Smith firmly believed in a duty to satisfy both individual and social purposes. These two ideas considered together, according to Smith, can lead to happiness for an individual and a society.

Many Scottish Enlightenment thinkers considered the idea of happiness, including Francis Hutcheson and Adam Smith. For Hutcheson, “all human beings are born with an innate moral sense...of the nature of right and wrong...and desire in the happiness of some other persons as well as his own” (Herman). This idea of happiness is expressed through both pleasing one’s own desires as well as the desires of others. Through one’s ability to use moral judgment,

sympathy, and the impartial spectator (as Smith advocated) one determines that pleasing another is good because it also makes one feel happy. “We begin to realize that the happiness of others is also our happiness” (Herman). What Adam Smith learned through studying Francis Hutcheson was that although an economic system can be driven by following “self-interest,” our self-interest as humans is driven by happiness for the individual and the community. Smith asserted that virtue was the nature of humans. Our happiness is determined by first being content with our individual life and joys but then that happiness is cemented through altruism. This is the very same idea that induced Thomas Jefferson to change “the pursuit of property” to “the pursuit of happiness” in the Declaration of Independence. Jefferson was revealing the happiness that humans feel when not only is the good of the individual is satisfied, but the good of the community is fulfilled as well. Hutcheson coined the phrase, “action is best, which produces the greatest happiness for the greatest number” (Herman). This stands as the legacy of Hutcheson who taught his contemporaries, including Smith, that these virtues are universal and are satisfied because they “lead to human happiness” (Herman).

Adam Smith, having been directly affected by Hutcheson, shared a similar sentiment about the human experience. Smith asserted, “Nature, when she formed man for society endowed him with an original desire to please, and an original aversion to offend his brethren” (Herman). However, Smith did maintain that humans are not entirely benevolent. Humans do require the approval of the individual, through judgment of the impartial spectator. Smith believed in the ability to have empathy for another – to put oneself in the place of another. For Smith, this seemed to promote the well-being of others through a longing to make others happy. This in turn would make one happy as well (Herman).

This idea gives a whole new perspective on Adam Smith, one that is quite contrary to how modern academics portray his legacy. Adam Smith can no longer be equated to a proponent of pure self-interest capitalism. While Smith's economic principles do contain the inner workings of a capitalistic system (i.e. division of labor, pursuit of self-interest, monetary policy), they must be taken into context with his previous work to formulate a holistic view of his philosophy. Otherwise, Smith appears to commend the hyper-individualism that has developed in modern, industrial society. Corporate executives and investment managers like Bernie Madoff actively pursue illegal activity to secure large profits while all the while ignoring their stakeholders and shareholder – those they are supposed to be serving. Having read Adam Smith solely in the context of *The Wealth of Nations*, one might argue that this was following the executive's self-interest. However, Smith would cringe at the idea that the actions of the corporate executives completely ignored the larger consequences to society.

Nobel Prize winner Amartya Sen wrote, "The nature of the present economic crisis illustrates very clearly the need for departures from unmitigated and unrestrained self-seeking in order to have a decent society" (Sen). He goes on to define how Smith's prescription for functioning economic system is driven by two motives that cannot be understood without the other. "The first is one of epistemology, concerning the fact that human beings are not guided only by self-gain or even prudence. The second is one of practical reason, involving the claim that there are good ethical and practical grounds for encouraging motives other than self-interest, whether in the crude form of self-love or in the refined form of prudence" (Sen). Unfortunately, modern economic and finance classes forget to include these larger, more important ideas in their curriculum. Just as the corporate executives turn a blind eye to their stakeholders when an



opportunity surfaces, academic textbooks miss the mark when they label Adam Smith as an economist who spoke solely of capitalism and the “invisible hand.”

## **VIII. Conclusion**

Without the integrated sense of Adam Smith's economics – exemplified in *The Wealth of Nations* – with his sense of human virtues – best captured in *The Theory of Moral Sentiments* – we cannot fully appreciate his theory. Modern business students are denied a full view of Smith's theories, and they become complicit in the overwhelming sense of individualism today. People might be prone to point fingers for that excessive individualism at "self-interest" and Smith, but he clearly meant his theories in a broader light. We must begin to understand that this egocentric view is to the detriment of society, both socially and economically. All members of a community, society, or economy must be held accountable for the actions that affect such a group. Adam Smith advocated for the pursuit of a strong, efficient economy, but this economy was not one that ignored all social ramifications.

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